

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
May 19, 2009**

A regular meeting of the Nebraska Investment Council convened at 8:34 a.m. at the Embassy Suites Hotel in La Vista, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on April 20, 2009, and published in the Lincoln Journal Star on May 10, 2009. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson, Chairwoman
Mr. John Maginn (arrived at 9:15 a.m.)
Mr. John Dinkel
Mr. Norm Riffel
Treasurer Osborn (departed at 4:06 p.m.)
Ms. Phyllis Chambers

MEMBERS ABSENT:

Dr. Richard DeFusco

NONMEMBERS IN ATTENDANCE:

Mr. Joe Jurich, Acting State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Kevin Vandolder, Ennis Knupp + Associates
Mr. Chris Riley, Ennis Knupp + Associates
Mr. Christopher Heinrich, Harding & Shultz
Ms. Gayle Wrasse, Nebraska Investment Council
Ms. JoLynn Winkler, Nebraska Investment Council
Ms. Heather Christopher, Ennis Knupp + Associates
Mr. Dan Drake, Ennis Knupp + Associates
Mr. Jason Hayes, Deputy State Treasurer
Ms. Rachel Biar, Director, College Savings Program
Mr. John Schembari, Kutak Rock
Mr. Tim Engler, Harding & Shultz
Ms. Tina Marie Probyn, First National Bank

ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:34 a.m. to 8:35 a.m. Ms. Werner-Robertson stated that a copy of the Open Meetings Act is located on the side table.

APPROVAL OF THE MINUTES OF THE MARCH 31, 2009, MEETING: 8:35 a.m. to 8:36 a.m. Mr. Dinkel moved that the April 3, 2009, draft of the March 31, 2009, meeting be approved. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Mr. Dinkel
Mr. Riffel
Ms. Werner-Robertson

ABSENT NOT VOTING:

Dr. DeFusco
Mr. Maginn

The motion carried.

COUNCIL MEMBER BUSINESS: 8:36 a.m. to 8:45 a.m. Ms. Werner-Robertson welcomed everyone to the meeting and informed the Council that Dr. DeFusco was out of town and would not be attending today's meeting. Ms. Werner-Robertson indicated that because of another commitment, Mr. Maginn would be arriving shortly. Mr. Maginn would update the Council on the SIO search at that time. Ms. Werner-Robertson thanked Mr. Dinkel and Dr. DeFusco for their time in meeting with the Governor and Senators Heidemann and Pankonin regarding the State Investment Officer position and the Agency's budget. Ms. Werner-Robertson reminded the Council of Ennis Knupp's upcoming Client Conference, May 27-28, 2009, in Chicago, IL. Mr. Vandolder indicated that the

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conference provides insights on important investment matters and gives clients the opportunity to connect with their peers. Mr. Vandolder will be forwarding slides from the conference to Council members. Ms. Werner-Robertson reminded Council members that Ennis Knupp was selected based on the company's independence, conflict-free investment consulting; experience; and focus on educating clients. Ms. Werner-Robertson stated that if their schedule permits, this would be a great educational opportunity for Council members and requested they contact her if interested in attending.

PERFORMANCE UPDATE BY ENNIS KNUPP: 8:45 a.m. to 9:05 a.m. Mr. Vandolder and Mr. Riley reviewed with the Council the Quarterly Performance Report for the first quarter included in the meeting book. Mr. Vandolder and Mr. Riley commented on the 1st quarter environment, the portfolios' investments, and how the Plans performed relative to their benchmark. Mr. Riley distributed copies of the preliminary performance summary on the Defined Benefit Plans as of April 30, 2009. Mr. Riley distributed copies of a report from SSB reaffirming the rebalancing range for the NIC's portfolio. Copies of the handouts are included in the attachments to the minutes.

PRESENTATION BY PIMCO: 9:05 a.m. to 10:30 a.m. Mr. Jurich introduced members of the PIMCO servicing team: Ms. Jennifer Bridwell, Executive Vice President, Mr. Saumil Parikh, Executive Vice President, Ms. Julie Meggers, Senior Vice President, and Ms. Amy Hsiang, Vice President. Their presentation gave an update on the firm, performance, economic outlook and strategy. The PIMCO team discussed the following two programs: (1) PPIP, the Treasury's "Private-Public Investment Partnership," a two-pronged program aimed at providing support to legacy loans and legacy securities (loans and securities originated before 2009), and (2) TALF, "the Term Asset-Backed Securities Loan Facility," a \$200 billion plus government program to finance purchases of AAA asset-backed securities by private investors. Ms. Bridwell discussed the PIMCO TALF Fund, its opportunities and investment strategy. The Council discussed each of the programs and felt more information is needed before taking any action. Copies of the presentations were included in the meeting book and the attachments to the minutes.

Mr. Maginn arrived at 9:15 a.m.

SIO SEARCH COMMITTEE UPDATE: 10:30 a.m. to 11:00 a.m. Mr. Maginn updated the Council on the SIO search. Mr. Maginn stated that the position profile has been completed and that the position has been advertised on Pensions and Investments' website, CFA (Chartered Financial Analyst) Institute's website, CFA Nebraska Newsletter, NASRA (National Association of State Retirement Administrators) email distribution, CAIA Association's (Chartered Alternative Investment Analyst) website, NCTR (National Council on Teacher Retirement) and on the Women Investment Professionals' website. Mr. Heinrich also suggested posting the ad on the NIC website. Ms. Werner-Robertson thanked the SIO Search Committee for their efforts and appreciates the search process in order to recruit the most qualified candidate.

The Council took a break and reconvened at 11:15 a.m.

COLLEGE SAVINGS PLAN – STATE FARM PROGRAM: 11:15 a.m. to 11:45 a.m. Mr. Vandolder and Mr. Riley discussed with the Council the memo included in the meeting book relating to replacement candidates for the three fixed income funds in the State Farm College Savings Plan due to the underperformance of the Oppenheimer fixed income strategies. Mr. Riley reviewed each of the funds and stated that State Farm and Oppenheimer have provided several actively managed mutual funds as possible replacements for the Core Bond Fund. Ennis Knupp is also recommending the addition of passive alternatives as a low cost, style pure investment option. The Council requested that Mr. Jurich invite representatives from Oppenheimer Funds and State Farm to the meeting to discuss the possible replacement candidates. Mr. Jurich introduced Mr. Bill Raynor, Vice President CRM, Mr. Ken Henry, Vice President Investment Officer, Oppenheimer Funds and Mr. Scott Hintz, Vice President for Financial Services Products, State Farm. Mr. Raynor, Mr. Henry, and Mr. Hintz discussed each of the funds. Following their presentation Mr. Maginn moved to eliminate the Oppenheimer Strategic Income Fund from the 1-3 Years to College portfolio and the College Now portfolio and replacing it with 50% of the replacement fund for the Oppenheimer Core Bond Fund and 50% of the replacement fund for the Oppenheimer Limited Term Government Fund. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Mr. Maginn

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Mr. Dinkel
Mr. Riffel
Ms. Werner-Robertson

ABSENT NOT VOTING: Dr. DeFusco

The motion carried.

Following additional discussion by the Council, Mr. Maginn moved to replace the Oppenheimer Core Bond Fund in all portfolios with the State Farm Bond Fund, subject to additional due diligence and a recommendation of the State Farm Bond Fund by Ennis Knupp. If Ennis Knupp does not recommend the State Farm Bond Fund, then the Council will give further consideration to an appropriate replacement fund at its next meeting. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE: Mr. Dinkel
Mr. Riffel
Ms. Werner-Robertson
Mr. Maginn

ABSENT NOT VOTING: Dr. DeFusco

The motion carried.

A copy of the presentation was included in the meeting book.

EXECUTIVE SESSION: 11:45 a.m. to 12:45 p.m. Mr. Maginn moved to enter into closed session. The subject of the closed session is the receipt of legal advice from counsel related to the College Savings Plan. The reason for the closed session is to maintain the confidentiality of such advice and communications related thereto. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE: Mr. Riffel
Ms. Werner-Robertson
Mr. Maginn
Mr. Dinkel

ABSENT NOT VOTING: Dr. DeFusco

The motion carried.

Ms. Werner-Robertson requested that only the voting and non-voting members of the Council, Mr. Jurich, Mr. Vandolder, Mr. Riley, Mr. Heinrich, Mr. Engler, Mr. Schembari, and Mr. Hayes be present and all others in attendance were excused.

At 12:45 p.m. Mr. Riffel moved that the Council return to open session. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE: Ms. Werner-Robertson
Mr. Maginn
Mr. Dinkel
Mr. Riffel

ABSENT NOT VOTING: Dr. DeFusco

The motion carried.

Mr. Dinkel moved to authorize the Acting State Investment Officer to enter into the Common Interest Agreement related to the claims of various states being presented against Oppenheimer with respect to the Core Bond Fund. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE: Mr. Maginn

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Mr. Dinkel
Mr. Riffel
Ms. Werner-Robertson

ABSENT NOT VOTING: Dr. DeFusco

The motion carried.

COLLEGE SAVINGS PLAN – STATE FARM PROGRAM: (continued) 12:47 p.m. to 12:48 p.m. Mr. Maginn moved to replace the Oppenheimer Limited Term Government Fund in all portfolios with the Federated U.S. Government 1-3 Year Fund. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE: Mr. Dinkel
Mr. Riffel
Ms. Werner-Robertson
Mr. Maginn

ABSENT NOT VOTING: Dr. DeFusco

The motion carried.

OPERATING INVESTMENT POOL REPORT BY ROD WALKER: 12:48 p.m. to 2:16 p.m. Mr. Jurich introduced Mr. Rod Walker who was recently retained by the Council to evaluate and provide a recommendation concerning the Operating Investment Pool. Mr. Walker's presentation covered the current portfolio's structure, new investments, revised portfolio guidelines, OIP assumptions, diversification, liquidity, use of other funds, and corporate credit assessment. Mr. Jurich distributed a draft of a revised *Operating Investment Pool Investment Policy Statement*. The Council made suggestions to the Policy and noted that the Policy would be in transition as to where the Council would like to possibly be in the next six to twelve months. Mr. Vandolder and Mr. Riley distributed a memo on the OIP, which included the following recommendations: (1) Hire Galliard Capital Management, Inc., to manage \$800 million of the OIP in a 100% corporate credit mandate, (2) Transition staff's mandate to 100% government secured, (3) Approve the proposed guidelines for the external and internally managed mandates and revised *OIP Investment Policy Statement*, and (4) Continue to monitor the fixed income market conditions and the needs of the institutions to ensure that the appropriate policies are in place. The Council discussed the recommendations and indicated that within the first six months of the agreement they would like to discuss with Galliard Capital Management, Inc. and NIC staff any changes that may need to be done. Mr. Maginn moved to adopt Ennis Knupp's recommendations described above including the revised OIP Policy Statement modified in accordance with the comments of the Council during the meeting. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE: Mr. Riffel
Ms. Werner-Robertson
Mr. Maginn
Mr. Dinkel

ABSENT NOT VOTING: Dr. DeFusco

The motion carried.

Ms. Werner-Robertson thanked Mr. Walker for his report on the OIP. Copies of the handouts are included in the attachments to the minutes.

The Council took a break and reconvened at 2:30 p.m.

PRIVATE EQUITY – MCCARTHY MOTION: 2:30 p.m. to 2:40 p.m. Mr. Jurich indicated that at the March 31, 2009, Council meeting there was some misunderstanding on the Council's intent on the commitment level and the wording of the motion to McCarthy Capital's Fulcrum Growth Partners IV, LLC. Mr. Jurich distributed copies of a side letter to the Fulcrum IV GP, LLC agreement clarifying commitment up to \$10 million. Following discussion by the Council Mr. Dinkel made the following motion:

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WHEREAS, at the Council meeting on March 31, 2009, the Council considered a private equity investment opportunity in Fulcrum Growth Partners IV, L.P. ("Fund IV");

WHEREAS, the Council approved an investment of the lesser of \$10 million or 10% of the aggregate capital contributions in Fund IV;

WHEREAS, Fund IV will co-invest with Fulcrum Growth Partners III, L.P. ("Fund III") on all investment opportunities (or less than all investment opportunities, at the option of the Council); and

WHEREAS, the Council desires to amend the Resolution approved March 31, 2009, so that the 10% investment restriction applies to the aggregate capital contributions of Fund III and Fund IV.

I move that the Resolution approved March 31, 2009, be amended to authorize and direct the Council to invest in Fund IV the lesser of the following: (a) \$10 million, or (b) 10% of the aggregate capital contributions of all partners in Fund III and Fund IV.

Mr. Riffel seconded the motion. Ms Werner-Robertson called for a roll call vote.

VOTING AYE:	Ms. Werner-Robertson
	Mr. Maginn
	Mr. Dinkel
	Mr. Riffel

ABSENT NOT VOTING:	Dr. DeFusco
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The motion carried.

A copy of the handout is included in the attachments to the minutes.

REAL ESTATE PRESENTATION BY ENNIS KNUPP: 2:40 p.m. to 3:30 p.m. Ms. Christopher and Mr. Drake reviewed with the Council the 2008 Fourth Quarter Performance Report included in the meeting book. Ms. Christopher discussed the current market conditions and the market outlook for the private real estate investments. Ms. Christopher and Mr. Drake reviewed the portfolio and gave a pacing update. Significant portfolio developments were also discussed. Mr. Dinkel requested that Ennis Knupp provide a more comprehensive analysis on what investments we have today and any changes in cap ratios.

Heitman Audit: Mr. Jurich discussed with the Council the memo in the meeting book relating to the Heitman REIT separate account. Mr. Jurich confirmed that the Heitman REIT separate account is audited by our custodian, State Street Bank, internally reconciled by NIC staff, and also audited by the Auditor of Public Accounts.

Back Office Update: Ms. Christopher updated the Council on called capital since the last meeting, advisory board meetings attended, and other activities being provided by Ennis Knupp during the SIO transition period.

REVISITING ASSET/LIABILITY BY ENNIS KNUPP: 3:30 p.m. to 3:50 p.m. Mr. Vandolder's presentation included in the meeting book covered the following: (1) Observations and recommendations made in 2008; (2) Changes since the previous study; (3) Updated observations and recommendation; and (4) Analysis of alternative equity allocation targets. Mr. Vandolder stated that the equity allocation allowable range of 50-70% is very sound and that the analysis continues to support the existing allocation of 70% to equities. Mr. Vandolder also distributed copies of an article on asset allocation written by Mr. Richard Ennis, which recently appeared in the Financial Analysts Journal. Following discussion by the Council, the Council decided that they would also like to hear from an Opportunistic Manager and requested that Mr. Jurich schedule an Opportunistic Manager presentation for the August 11, 2009, Council meeting. A copy of the handout is included in the attachments to the minutes.

STATE INVESTMENT OFFICER'S REPORT: 3:50 p.m. to 4:05 p.m.

Investment Manager Agreements: Mr. Jurich indicated that he recently signed investment agreements for New Enterprise Associates and Fulcrum Growth Partners and also signed side letter elections with respect to CVC Europe and Five Arrows.

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Potential or Pending Legislation: Mr. Jurich indicated that the deficit bill, LB311 and the mainline budget bill, LB315 have been sent to the Governor for his consideration. Mr. Jurich will notify the Council as soon as possible on any action taken by the Governor.

Equal Retirement Benefit Funds – IPS Review: Mr. Jurich and Mr. Vandolder reviewed with the Council the memo in the meeting book on the Equal Retirement Benefit Funds. After discussion the Council requested that the NIC map the remaining assets in the State and County Equal Retirement Benefit Funds into the internally managed Investor Select Fund.

ANNUAL HEALTH CARE TRANSFER: Mr. Jurich reviewed the Health Care Endowment Fund, which includes two separate accounts within the Fund (Balance of \$250M as of 3/31/09): the NE Medicaid Intergovernmental Trust Fund (\$94M or 38% of the total fund) and the NE Tobacco Settlement Trust Fund (\$156M, or 62% of the total fund). Per Neb. Rev. Stat. § 71-7611 "The State Treasurer shall transfer fifty-five million seven hundred thousand dollars annually no later than July 15" from the Fund. "The State Investment Officer upon consultation with the Nebraska Investment Council shall advise the State Treasurer" how much to allocate from each of the two components "in order to sustain such transfers in perpetuity." Mr. Jurich recommended that he notify the State Treasurer to transfer 38% of the \$55.7 million annual payment (or \$21.2M) from the Nebraska Medicaid Intergovernmental Trust Fund and 62% of the payment (or \$34.5M) from the Nebraska Tobacco Settlement Trust Fund. Mr. Riffel moved to accept Mr. Jurich's recommendation. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Maginn
	Mr. Dinkel
	Mr. Riffel
	Ms. Werner-Robertson

ABSENT NOT VOTING:	Dr. DeFusco
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The motion carried.

Action Plan, conferences, and articles: The next Council meeting will be on August 11, 2009, Omaha Marriott Hotel.

PERB UPDATE: 4:05 p.m. to 4:19 p.m. Ms. Chambers reported that the Governor has reappointed three PERB members whose terms will expire on December 31, 2009. Their Confirmation Hearings have been held so that they will be ready to go on January 1, 2010. Ms. Chambers indicated that the IT project went well and NPERS will receive support from Saber and the Office of the CIO. The State and County audit has just started and is going well. Ms. Chambers reviewed the legislation effecting NPERS and the status of each bill.

Treasurer Osborn left the meeting at 4:06 p.m.

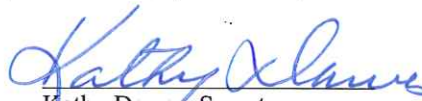
PUBLIC COMMENT ON THE AGENDA: 4:19 p.m. to 4:20 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 4:20 p.m. Mr. Riffel moved to adjourn the meeting. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Maginn
	Mr. Dinkel
	Mr. Riffel
	Ms. Werner-Robertson

ABSENT NOT VOTING:	Dr. DeFusco
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The motion carried.


Kathy Dawes, Secretary